

Idaho Economic Forecast

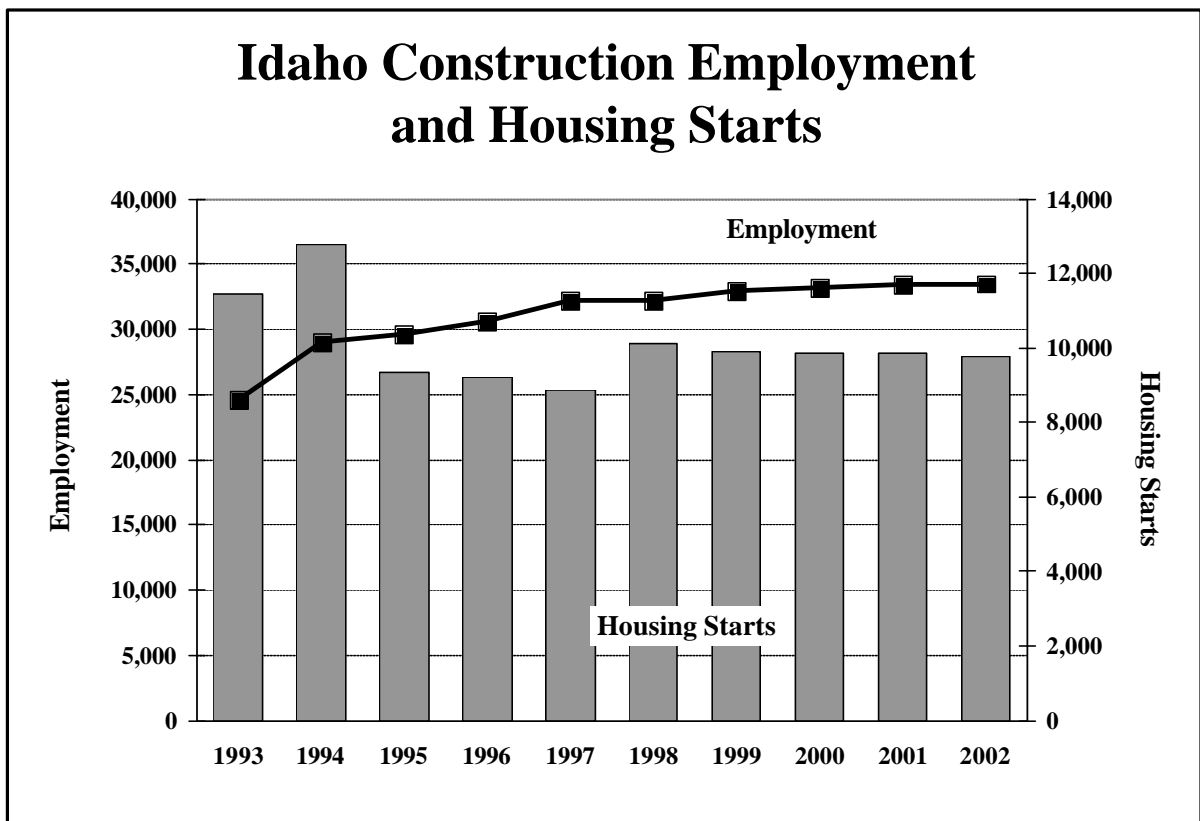
DIRK KEMPTHORNE, Governor

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- Forecast 1999-2002
- Understanding the Social Security Debate
- Alternative Forecasts



**Idaho
Economic
Forecast
1999 - 2002**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop and start economic performance, the 1980s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

Our traditional industries, such as lumber and wood products, food processing, and mining, have become more competitive. Our high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the 1990s.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm. Most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the June 1999 Standard and Poor's DRI baseline forecast of the U.S. economy. The April 1999 *Idaho Economic Forecast* is based on the March 1998 DRI national forecast.

The outlooks for Idaho's housing and construction sectors are featured in the cover chart. It shows that after peaking at 10,123 units last year, housing starts should slide to 9,758 units by 2002. The softer housing forecast has put a damper on the prospects for Idaho construction employment. While the total number of jobs should continue to grow, its pace will fall in each year. This is a big change from the beginning of this decade when construction employment regularly posted double-digit growth rates.

FEATURE

The feature article is titled, "Understanding the Social Security Debate". Social Security is among the most widely discussed and least understood economic topics. While most Americans are aware of Social Security's impending financial crises, confusion over the dimensions of the program's problems appears to undermine support for solutions to resolve them. This article reviews some of the basic facts about the Social Security system, describes how it is financed and the factors contributing to its future insolvency, and discusses options for restoring its financial health. Mary C. Daly, who is an economist with the Federal Reserve Bank of San Francisco, wrote this article.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1983 to 2002 and for every quarter from 1996 through 2001. The solution of the Idaho Economic Model for this forecast begins with the first quarter of 1999.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the first quarter of 1999. The estimates for all of 1998 have been benchmarked. The monthly estimates for the first quarter of 1999 are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by DFM.

The benchmarked data show that Idaho nonfarm employment grew 2.5% in 1998. This was just slightly below DFM's April 1999 estimate for that year. DFM predicted there would be a 13,026 net job gain in 1998. The final data show a net gain of 12,801. There is a difference of 225 (1.8%) between the two.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the fourth quarter of 1998. According to this data Idaho nominal personal income grew 5.1% in 1998, which was about the same pace as in 1997. The BEA is scheduled to release the next round of Idaho personal income estimates in late July 1999. These estimates will run through the first quarter of 1999.

Early this summer DFM reviewed the Idaho Economic Model. This review had a twofold purpose. First, the model's structure was carefully evaluated and changes were made to it where relevant. Second, the stochastic equations of the model were reestimated to incorporate the most current data available. A listing of all of the model's equations, as well as the endogenous and exogenous variables in the model, can be found in the Appendix of this *Forecast*.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

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